

NSC BRIEFING

8 November 1954

CURRENT SITUATIONS IN HUNGARY

- I. Both economic and political troubles in Hungary today worst of any Satellite. Regime's new economic policies are failing: high level dissension has developed in Communist Party; open popular resentment has increased.
 - A. Problems stem from halting and confused implementation "new course" (launched in July 1953).
 - B. Since then, three cutbacks in industrial production targets have cut expansion rate from 16% to 1% today.
 - C. Despite these cutbacks, steel production 90,000 tons behind current schedule; coal arrears (which growing by 50,000 tons a week) now total 450,000 tons.
 - D. Shortages will add to severity of winter, make significant increase in consumer goods production impossible.
 - E. Increased investments in agricultural and consumer goods sections have not been made.

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F. 40 percent of peasants on collectives left them
during past year--near chaos in farm program.

II. Results are widespread.

- A. Serious unemployment: some 200,000 workers now out
of work because office personnel fired to reduce
expenses. *No Cema aid, ?*
- B. Inflationary pressures have built up: labor pro-
ductivity down 3.3% during the first eight months
of 1954, compared with last year. Production costs
have risen by 2.8%.
- C. Worker income up by 15.8 percent, but consumer goods
prices down by 8.3 percent during same period.
- D. Resulting inflation pressure controlled only by
living off inventories, admittedly temporary ex-
pedient.
- E. Further inflation might force currency reform, result
in increased disaffection, possibly riots.

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III. In spite of failures, the regime plans to increase the scope of the "new course" in attempt to win peasant and worker support with greater incentives.

A. Regime is also exerting efforts to whip up nationalist enthusiasm.

B. New "mass" organization, Patriotic People's Front, has been established to encourage wider popular participation and support for regime's policies.

C. Party leaders are criticizing regime's past policy of "mechanically" applying Soviet methods in Hungary.

D. Some former Socialists and Communists, purged in 1950 and 1951 for "national deviation" are getting out of prison.

1. Former Politburo member and Minister of Interior, Kadar, was restored to moderate Party position in October.

2. Ex-foreign minister, Kallai, has reportedly been released from prison.

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E. As added SOP to Nationalism, USSR returned all joint Soviet-Hungarian companies to Hungary on 6 November.

IV. Regime's mounting economic problems have added to existing dissension and confusion within Party.

A. Many Hungarian Communists, possibly including First Secretary Rakosi, regard "new course" as a fundamental tactical mistake.

B. Believe regime, by following "new course," is abandoning proletariat, creating bourgeois conditions in countryside.

C. This high-level dissension has added to confusion created in Party ranks by adoption "new course."

D. 95 percent of Party's 864,000 members joined postwar--knew only postwar Stalinist theory and practice until start of "new course," which was radical departure.

V. Regime also facing increased popular opposition.

A. The concessions granted to date have only encouraged

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populace to press for added concessions, give open voice to anti-regime attitude.

- B. Popular resistance is unorganized, passive. Takes form of non-cooperation--absenteeism, shoddy workmanship, withdrawal from collectives, resistance to quotas, etc.

VI. Neither opposition within Party or among people constitutes a threat to Soviet domination.

- A. Opposition within Party has no desire to overthrow Communist role.
- B. Probably believe "new course" is doomed to failure, USSR will be forced to permit return to original harsh policies they espouse.
- C. Popular opposition cannot be transformed into adequately organized movement capable of overthrowing Communist regime.
- D. All formerly powerful political parties have been eliminated, their leaders executed or exiled.

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- E. No evidence that current disaffection has effected loyalty, reliability of army or security forces.
- F. With two Soviet mechanized divisions (30,000 troops) and three air divisions stationed in Hungary, prospects for any uprising appear small. Attempt would be certain to fail.

VII. Although present troubles no real threat to Soviet domination, they pose serious dilemma to USSR.

- A. Soviet objectives in Hungary--a strong economy and a reasonably contented population--cannot be achieved without full support of people and Party.
- B. Even if regime decided to return to Stalinist policies (which abandoned in 1953 because they had failed to obtain their objectives) no reason to believe that such policies would be any more successful today.
- C. Therefore appears that although forces of opposition cannot cause collapse of regime, they will continue to keep regime off balance, frustrate Moscow's aim of

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making Hungary an effective contributing member
of Satellite family.

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